

**REPORT OF THE AUDIT OF THE
LEE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LEE COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Lee County Fiscal Court for fiscal year ended June 30, 2004.

We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Lee County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$2,320,943 as of June 30, 2004. The fiscal court had unrestricted net assets of \$459,963 in its governmental activities as of June 30, 2004, with total net assets of \$2,320,943. The fiscal court had total debt principal as of June 30, 2004, of \$520,808 with \$77,981 due within the next year.

Report Comments:

- The County Should Improve Their Internal Control Procedures
- The County Should Implement Better Internal Control Procedures Over Solid Waste Collections And Billings
- The Depository Institution Should Have Provided Additional Pledges Of Securities To Protect Deposits

Deposits:

As of August 31, 2003, \$211,420 of the fiscal court's deposits were uninsured and uncollateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable L.C. Reese, Lee County Judge/Executive
Members of the Lee County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lee County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lee County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Lee County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lee County, Kentucky as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To The People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable L.C. Reese, Lee County Judge/Executive
Members of The Lee County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lee County, Kentucky's basic financial statements. The accompanying supplementary information and combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 11, 2005, on our consideration of Lee County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the comments and recommendations, included herein, which discusses the following report comments:

- The County Should Improve Their Internal Control Procedures
- The County Should Implement Better Internal Control Procedures Over Solid Waste Collections And Billings
- The Depository Institution Should Have Provided Additional Pledges Of Securities To Protect Deposits

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 11, 2005

LEE COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

L.C. Reese	County Judge/Executive
Ronnie Paul Begley	Magistrate
Lenard Carl Ross	Magistrate
Bennie Todd	Magistrate
Everett L. Marshall	Magistrate

Other Elected Officials:

Tom Jones	County Attorney
Arthur Noe	Jailer
Russell Stamper	County Clerk
Emma Adams	Circuit Court Clerk
James Harvey Pelfrey	Sheriff
Gary Lutes	Property Valuation Administrator
Emmett Daugherty	Coroner

Appointed Personnel:

Pearl Spencer	County Treasurer
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LEE COUNTY
OFFICE OF THE JUDGE EXECUTIVE
P O B O X G
BEATTYVILLE, KY 41311
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E M A I L : L E E C O @ M I K R O T E C . C O M

Management's Discussion and Analysis

The financial management of Lee County, Kentucky offers the readers of Lee County's financial statements this narrative overview and analysis of the financial activities of Lee County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented in conjunction with other information that we have furnished in our financial statements and the notes to the financial statements.

Financial Highlights

Lee County had net assets of \$2,320,943 as of June 30, 2004. The fiscal court had a total fund balance of \$459,963 in its governmental funds as of June 30, 2004, with \$50,762 being restricted for grants received during the fiscal year. Total debt principal as of June 30, 2004 was \$520,808 with \$77,981 due within one year.

The County's total net assets as of June 30, 2003 were \$2,018,614. Total net assets for 2004 were \$2,320,943, making an increase of \$302,329 from the prior year. This increase is primarily due to the County setting up a Capitalization Policy and adding all assets to the financial picture of the County. We added garbage pickup to our Solid Waste Department and bought two new garbage trucks, a used Compactor and provided curbies for all customers and dumpsters for businesses.

At the close of the current fiscal year, Lee County had a fund balance of \$459,963. Of this amount, \$409,201 is available for spending at the fiscal court's discretion. (CERT Grant \$5,750, \$1,700 Dead Animal Grant, \$11,133 HB 66 Amb Grant, \$32,179 Litter Abatement Fund are the restricted funds due to grant restrictions.)

Lee County's total indebtedness as of June 30, 2004 was \$520,808, of which \$442,827 is long term (due after 1 year) and \$77,981 is short-term debt (to be paid within 1 year). Lee County added new debt, totaling \$250,063 for equipment purchased to run the Solid Waste Pickup Service. (Compactor, 2 small trucks, curbies, and dumpsters) The County paid \$103,007 in principal on existing leases. The net increase in long-term debt during the year was \$147,056.

During fiscal year 2003-2004, Lee County paid \$15,000 to supplement grant received by Tri Community Fire Department for the purchase of a new Mini-pumper. Lee County received Grants for a new 911 console, bought pagers for our Rescue Squad, a vehicle for EMA director, completed the Library Annex Renovation, and built a Community Center and Amphitheater.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Lee County's basic financial statements. Lee County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**LEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004
(Continued)**

Overview of the Financial Statements (Continued)

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of Lee County's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on Lee County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Lee County is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (business-type activities). Lee County's governmental activities include general government, protection to persons and property, general health and sanitation, social services, recreation and culture, roads, debt service, and capital projects. Lee County does not have any business type activities.

The financial statements include not only Lee County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Lee County has one such component unit, which is the Public Service Corporation and has been presented as a blended component unit.

LEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004
(Continued)

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Lee County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Lee County are governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Lee County maintains (6) six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road Fund
- Ambulance Fund
- Solid Waste Fund

Non-major Funds:

- Jail Fund
- Local Government Economic Assistance Fund

Lee County adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund and major special revenue funds to demonstrate compliance with their budgets.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

LEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004
(Continued)

Financial Analysis of the Government-Wide Activities (Net Assets)

Lee County's net assets increased by \$302,329 for the fiscal year ended June 30, 2004. Key elements of this increase are as follows:

1. Current assets and cash increased \$92,712
2. Investments in capital assets, net of accumulated depreciation increased \$356,673 from fiscal year 2003.
3. Current and long-term liabilities increased by \$250,063
4. Revenues were \$3,469,489 as reflected in the Statement of Activities
5. Expenditures totaled \$3,167,160 as reflected in the Statement of Activities.

Lee County does not have any business-type activities.

Financial Analysis of the Governmental Funds

As of the end of the June 30, 2004 fiscal year, the combined ending fund balance of Lee County funds was \$459,963. \$409,201 of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$50,762) is reserved to indicate that it is not available for new spending because it is committed.

The County has four major funds. These are 1) General Fund; 2) Road Fund; 3) Ambulance Fund; and 4) Solid Waste Fund. There are two non-major funds. They are Jail Fund and Local Government Economic Assistance Fund.

Major Funds

1. The General Fund is the chief operating fund of Lee County. At the end of the June 30, 2004 fiscal year, unreserved fund balance of the General Fund was \$218,720, while total fund balance was \$236,734. The County received \$618,736 in tax revenues. This accounts for approximately 46% of the general fund revenue.
2. The Road and Bridge Fund is the fund related to county road and bridge construction and maintenance. The Road and Bridge Fund had a \$149,381 fund balance as of June 30, 2004. The fund balance at the end of the previous year was \$21,721. The fiscal year 2004 expenditures for road projects were \$790,794 compared to fiscal year 02-03 of 1,503,497. Only \$115,923 was spent on FEMA projects compared to 638,396 in the prior fiscal year.
3. The Ambulance Fund is the fund related to billing and collection of ambulance transports. At the end of June 30, 2004 total cash balance was \$11,965, compared to \$72,561 at the end of fiscal year 02-03. Only \$832 was unrestricted. During fiscal year 03-04 the County upgraded the ambulance service from a Basic Life Support Service to an Advanced Life Support Service. Paramedics were added to payroll. The County also increased pay for all EMTs to \$8.00 per hour, increasing total payroll cost by \$138,234 over fiscal year 02-03. Fiscal Year 03-04 was the first year since 1990 the County supplemented the fund with General Fund monies in the amount of \$25,000. Revenues from transports were up \$31,456 from fiscal year 02-03 and expenditures were increased by \$54,944 from last fiscal year.

**LEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004
(Continued)**

Financial Analysis of the Governmental Funds (Continued)

Major Funds (Continued)

4. The Solid Waste Fund is the fund related to billing and collection of the Solid Waste Department. We started pickup service in July. Total fund balance at June 30, 2004, was \$33,569 of which \$32,179 is reserved for Litter Abatement Activities. The remaining balance of \$1,390 is unreserved. All customers received garbage collection for the month of July free of charge and all customers were given a curbie, which was purchased from a lease secured through KACo Leasing. Total Garbage Collection fees for fiscal year 2004 were \$302,831(averaging \$27,530 per month) while total expenditures were \$349,872 (\$29,156 a month). The county took on new debt in the amount of \$250,063 for the purchase of solid waste equipment, making actual yearly expenditures \$599,935. The total principal and interest paid for fiscal year 2004 was \$31,378. The County transferred \$40,000 from the General Fund to supplement the Solid Waste Fund.

Non-Major Funds

Lee County has two non-major funds: Jail and LGEA

1. The Jail Fund had \$10,299 in cash at the end of fiscal year 2004. The total cash balance was unrestricted. During fiscal year 2004, \$33,531 was received from the State for Bed allotment, \$1,408 in Court Costs, and \$1,023 for DUI fees. The County transferred \$148,000 into the Jail Fund from LGEA, and \$10,000 into the Jail from the General Fund. Total funds transferred accounted for 78% of total receipts for the Jail Fund. Total expenditures for fiscal year 2004 were 192,617.
2. The LGEA Fund is a fund made up of receipts derived from coal severance and mineral receipts. Lee County fluctuates from being a coal-producing county to a coal impact county. In fiscal year 2004, Lee County received two quarters of Coal impact monies (\$13,442) and two quarters of coal producing monies (\$42,570) and mineral tax totaling \$131,084. The major function of Lee County's LGEA fund is to supplement the Jail Fund to lodge County prisoners in the Three Forks Regional Jail. In fiscal year 2004, \$148,000 was transferred to the jail. The remaining expenditures were spent for road maintenance (\$37,578) on coal haul roads and final payment (\$10,355) on the construction of the Community Center. The fund balance as of June 30, 2004 was \$18,015.

Budgetary Highlights

The County's original total budget was amended during the fiscal year increasing the operating budget by only \$1,849. The General Fund operating budget was decreased by \$38,151, while the LGEA was increased by \$21,000 and the Ambulance Fund was increased by \$19,000.

Capital Assets and Debt Administration

Capital Assets. Lee County's investment in capital assets for its government activities as of June 30, 2004, amounts to \$2,381,788. This investment in capital assets includes land, construction in process, buildings, improvements to land other than buildings, machinery and equipment, and vehicles. The County has elected to report infrastructure assets per GASB 34 provisions.

Major capital asset events during the 2004 fiscal year included the County adopting a capitalization policy for county assets, along with the addition of two new trucks, one used compactor, and curbies/dumpsters bought for the Solid Waste Department.

**LEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004
(Continued)**

Capital Assets and Debt Administration (Continued)

Long-Term Debt. At the end of the 2004 fiscal year, Lee County had total long-term debt outstanding of \$520,808. The amount of this debt due within the next year is \$77,981 and \$442,827 is due in subsequent years. This debt is for a grader, truck, backhoe, voting machines, an ambulance, solid waste equipment, and for paving. The debt for the ambulance and voting machines will be retired in fiscal year 04-05.

Other Matters

The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

The 2005 fiscal year adopted budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects, which have been completed, or nearing completion.

The Fiscal Court will have to continue to supplement the Ambulance Fund and Solid Waste Fund.

The Fiscal Court will have to be conservative with LGEA projections due to the fluctuating of Coal Impact and Coal Producing receipts. The Court will have capital asset additions of the Community Building and Amphitheater to maintain.

Requests for Information

The financial report is designed to provide a general overview of Lee County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Lee County Treasurer, P.O. Box G, Beattyville, KY 41311.

LEE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

LEE COUNTY
STATEMENT OF NET ASSETS – MODIFIED CASH BASIS
June 30, 2004

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 459,963
Total Current Assets	<u>459,963</u>
Noncurrent Assets:	
Land Held For Development	
Capital Assets - Net of Accumulated Depreciation	
Land	174,244
Construction In Progress	267,277
Buildings	1,145,014
Other Equipment	115,022
Vehicles	388,926
Equipment	<u>291,305</u>
Total Noncurrent Assets	<u>2,381,788</u>
Total Assets	<u>2,841,751</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations Payable	<u>77,981</u>
Total Current Liabilities	<u>77,981</u>
Noncurrent Liabilities:	
Financing Obligations Payable	<u>442,827</u>
Total Noncurrent Liabilities	<u>442,827</u>
Total Liabilities	<u>520,808</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,860,980
Restricted For:	
Grants	50,762
Unrestricted	<u>409,201</u>
Total Net Assets	<u><u>\$ 2,320,943</u></u>

The accompanying notes are an integral part of the financial statements

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LEE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

LEE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 780,952	\$ 108,691	\$ 16,662	\$
Protection to Persons and Property	915,156	709,400	106,482	
General Health and Sanitation	345,198	302,831	21,947	150,000
Social Services	38,073		11,958	
Recreation and Culture	3,688		6,037	53,353
Roads	629,732		1,235,432	
Debt Service	132,979			
Capital Projects	321,381			
Total Governmental Activities	3,167,160	1,120,922	1,398,518	203,353
Total Primary Government	\$ 3,167,160	\$ 1,120,922	\$ 1,398,518	\$ 203,353

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

LEE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets
Primary Government

Governmental
Activities

\$	(655,599)
	(99,274)
	129,580
	(26,115)
	55,702
	605,700
	(132,979)
	(321,381)
	<u>(444,367)</u>
	 (444,367)
	 <u>(444,367)</u>
	 340,088
	109,797
	83,553
	107,713
	832
	92,438
	<u>12,275</u>
	 746,696
	302,329
	<u>2,018,614</u>
\$	<u><u>2,320,943</u></u>

The accompanying notes are an integral part of the financial statements.

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LEE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

LEE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Ambulance Fund</u>	<u>Solid Waste Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 236,734	\$ 149,381	\$ 11,965	\$ 33,569
Total Assets	<u>\$ 236,734</u>	<u>\$ 149,381</u>	<u>\$ 11,965</u>	<u>\$ 33,569</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 18,014	\$ 13,244	\$ 5,690	\$ 1,810
Unreserved:				
General Fund	218,720			
Special Revenue Funds		136,137	6,275	\$ 31,759
Total Fund Balances	<u>\$ 236,734</u>	<u>\$ 149,381</u>	<u>\$ 11,965</u>	<u>\$ 33,569</u>

The accompanying notes are an integral part of the financial statements.

LEE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Non-Major Governmental Funds	Total Governmental Funds
\$ 28,314	\$ 459,963
\$ 28,314	\$ 459,963
\$ 1,150	\$ 39,908
	218,720
27,164	201,335
\$ 28,314	\$ 459,963

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

Total Fund Balances	\$ 459,963
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	3,356,516
Accumulated Depreciation	(974,728)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(520,808)
Net Assets Of Governmental Activities	\$ 2,320,943

The accompanying notes are an integral part of the financial statements.

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LEE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

LEE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Ambulance Fund</u>
REVENUES			
Taxes	\$ 618,736	\$	
In Lieu Tax Payments	9,370	8,058	
Excess Fees	832		
Licenses and Permits	13,331		
Intergovernmental	598,677	813,373	11,133
Charges for Services	7,423		709,400
Miscellaneous	79,445	17,201	9,880
Interest	8,409	3,198	176
Total Revenues	<u>1,336,223</u>	<u>841,830</u>	<u>730,589</u>
EXPENDITURES			
General Government	469,043		
Protection to Persons and Property	140,974	3,535	659,206
General Health and Sanitation	16,874		
Social Services	35,004		
Recreation and Culture	8,679		
Roads	12,500	649,414	
Debt Service	14,473	69,841	17,287
Capital Projects	321,381		
Administration	<u>160,448</u>	<u>68,004</u>	<u>139,692</u>
Total Expenditures	<u>1,179,376</u>	<u>790,794</u>	<u>816,185</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>156,847</u>	<u>51,036</u>	<u>(85,596)</u>
Other Financing Sources (Uses)			
Financing Obligation Proceeds			
Transfers From Other Funds	45,000	76,624	70,000
Transfers To Other Funds	<u>(196,624)</u>		<u>(45,000)</u>
Total Other Financing Sources (Uses)	<u>(151,624)</u>	<u>76,624</u>	<u>25,000</u>
Net Change in Fund Balances	5,223	127,660	(60,596)
Fund Balances - Beginning (Restated)	<u>231,511</u>	<u>21,721</u>	<u>72,561</u>
Fund Balances - Ending	<u><u>\$ 236,734</u></u>	<u><u>\$ 149,381</u></u>	<u><u>\$ 11,965</u></u>

The accompanying notes are an integral part of the financial statements.

LEE COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Solid Waste Fund	Non- Major Governmental Funds	Total Governmental Funds
\$	\$	\$
		618,736
		17,428
		832
4,036		17,367
17,447	224,277	1,664,907
307,331		1,024,154
598	6,666	113,790
147	345	12,275
<u>329,559</u>	<u>231,288</u>	<u>3,469,489</u>
		469,043
	187,407	991,121
532,919		549,793
		35,004
		8,679
	37,578	699,492
31,378		132,979
	10,355	331,736
35,638	5,210	408,992
<u>599,935</u>	<u>240,550</u>	<u>3,626,840</u>
<u>(270,376)</u>	<u>(9,262)</u>	<u>(157,351)</u>
250,063		250,063
40,000	158,000	389,624
	(148,000)	(389,624)
<u>290,063</u>	<u>10,000</u>	<u>250,063</u>
19,687	738	92,712
13,882	27,576	367,251
<u>\$ 33,569</u>	<u>\$ 28,314</u>	<u>\$ 459,963</u>

The accompanying notes are an integral part of the financial statements.

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**LEE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

**LEE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 92,712
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital Outlay	486,273
Depreciation Expense	(129,600)
<p>The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal on long-term debt consumes the current financial resources of governmental funds.</p>	
Financing Obligation Proceeds	(250,063)
Financing Obligations Principal Payments	<u>103,007</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 302,329</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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**LEE COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Lee County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Lee County does not have any discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Public Service Corporation

The Public Service Corporation is a legally separate entity established to provide debt service for the purchase of real estate property from the Kentucky Mountains Farm Cooperative. The Public Service Corporation's governing body consists entirely of Fiscal Court members. Therefore, management should include the Public Service Corporation as a component unit, and its financial activity should be blended with the Fiscal Court. However, the Public Service Corporation had no financial activity during the year and had no financial information to blend with that of the fiscal court.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Lee County Elected Officials Not Part Of Lee County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Lee County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Lee County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Since there is only one type (governmental) presented for Lee County, major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total for all governmental funds combined. The fiscal court may also designate any fund as major. Major individual governmental funds are reported as separate columns in the financial statements.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Ambulance Fund - This fund accounts for all revenues from uses of the Ambulance Service along with some state contributions.

Solid Waste Fund - The primary purpose of this fund is to account for the solid waste expenses of the county. The primary sources of revenue for this fund is monthly collection fees and from the state and federal government. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the general fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund and the Jail Fund. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes. The Local Economic Assistance Fund and the Jail Fund are special revenue funds.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and KACO Leasing Trust financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances. "Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Lee County Fiscal Court:

Three Forks Region Jail

On October 6, 2000, the Counties of Lee, Owsley, and Wolfe (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the acquisition, construction, installation, maintenance and financing of the Three Forks Regional Jail. Pursuant to this interlocal agreement, Lee County (the lead county) established the Three Forks Public Properties Corporation, a legally separate organization, to act as an agency and instrumentality of the participating counties in financing the acquisition and construction of the Three Forks Regional Jail. On December 1, 2000, the corporation issued \$6,295,000 of first mortgage revenue bonds.

The only source of funds expected by the Three Forks Public Properties Corporation to meet the debt service requirements on the bonds are the rental payments from the participating counties, as stipulated in the lease and sublease agreements dated October 1, 2000. Pursuant to the lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements on the bonds as follows (the "proportionate share" or "use allowance"): 40% for Lee County, 22% for Owsley County and 38% for Wolfe County.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Joint Venture (Continued)

Three Forks Region Jail (Continued)

By execution of the lease and subleases, each county is obligated for the amount of its proportionate share, plus any operating cost allowance required under the lease and subleases.

Each county is liable solely for its own proportionate share of total annual debt service on the bonds and no one county is liable for another county's debt. Payment of the annual debt service on the bonds is dependent upon each participating county paying its respective amount of its use allowance as rent under the lease or sublease, as the case may be, in full.

Each county has agreed in its lease and sublease agreements that in the event a county can not pay its indebtedness, an Ad Valorem Tax will be levied in that county for the amount sufficient to provide full payment of the county's rentals due for that year.

On December 1, 2000, the three participating counties established the Three Forks Regional Jail Authority pursuant to the provisions of KRS 441.800 and KRS 441.810 to act as the constituted authority of the participating counties in the acquisition, construction, equipping and operation of the Three Forks Regional Jail.

It is anticipated under the management agreement that the three participating counties will share equally in the operational costs of the facility based on a daily bed allocation of 15 beds at \$25 per day on a take-or-pay basis. It is anticipated under the management agreement that the counties will not be required to make additional payments to the operation of the facility; however, should there be a shortfall in operating revenue, the counties will pay equally to the authority, those moneys required to meet the debt service and operational costs.

The Three Forks Regional Jail Authority and the Three Fork's Public Properties Corporation are comprised of an eight (8) member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition, the Lee county jailer is a required member of the board.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, on August 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$211,420 of public funds uninsured and unsecured.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits (Continued)

The county's deposits are categorized below to give an indication of the level of risk assumed by the county on August 31, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with surety bond	1,481,000
Uncollateralized and uninsured	<u>211,420</u>
Total	<u><u>\$ 1,792,420</u></u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital Asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 174,244	\$	\$	\$ 174,244
Construction In Progress	256,922	10,355		267,277
Total Capital Assets Not Being Depreciated	431,166	10,355		441,521
Capital Assets, Being Depreciated:				
Buildings	1,515,405	100,000		1,615,405
Other Equipment	115,721	48,800		164,521
Vehicles	445,824	216,683		662,507
Equipment	362,127	110,435		472,562
Total Capital Assets Being Depreciated	2,439,077	475,918		2,914,995
Less Accumulated Depreciation For:				
Buildings	(449,988)	(20,403)		(470,391)
Other Equipment	(34,993)	(14,506)		(49,499)
Vehicles	(212,548)	(61,033)		(273,581)
Equipment	(147,599)	(33,658)		(181,257)
Total Accumulated Depreciation	(845,128)	(129,600)		(974,728)
Total Capital Assets, Being Depreciated, Net	1,593,949	346,318		1,940,267
Governmental Activities Capital Assets, Net	\$ 2,025,115	\$ 356,673	\$	\$ 2,381,788

Governmental Activities:

General Government	\$ 22,841
Protection to Persons and Property	49,080
General Health and Sanitation	22,319
Social Services	3,069
Recreation and Culture	1,529
Roads	30,762
Total Depreciation Expense - Governmental Activities	<u>\$ 129,600</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Short-Term Debt

Changes in Short-Term Liabilities

In July 2003, Lee County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$981,700, with principal being due in January 2004. While the county did not use the borrowed funds in order to meet current General and Road Fund expenses, they were able to invest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$2,807.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Kentucky Advance Revenue Program	\$ 0	\$ 981,700	\$ 981,700	\$ 0
Governmental Activities				
Short-Term Liabilities	<u>\$ 0</u>	<u>\$ 981,700</u>	<u>\$ 981,700</u>	<u>\$ 0</u>

Note 5. Long-Term Debt

A. Grader

In June 1995, the county entered into a capital lease agreement for \$99,000 with Kentucky Association of Counties Leasing Trust Program for a grader. Terms of the agreement stipulate a ten-year repayment schedule, with variable monthly interest payments and variable annual principal payments. The principal amount is due on January 20 of each year to end on January 20, 2005. As of June 30, 2004, the principal balance was \$12,000. Lease payments for the remaining year is:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 12,000	\$ 420
Totals	<u>\$ 12,000</u>	<u>\$ 420</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-Term Debt (Continued)

B. Truck/Backhoe

In July 1997, the county entered into a capital-lease agreement for \$71,000 with Kentucky Association of Counties Leasing Trust Program for a truck and a backhoe. Terms of the agreement stipulate a ten-year repayment schedule, with variable monthly interest payments and variable annual principal payments. The principal amount is due on January 20 of each year to end on January 20, 2007. As of June 30, 2004, the principal balance was \$18,000. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2005	\$ 6,000	\$ 868
2006	6,000	532
2007	6,000	196
Totals	<u>\$ 18,000</u>	<u>\$ 1,596</u>

C. Voting Machines

In September 1999, the county entered into a capital lease agreement for \$43,945 with Kentucky Association of Counties Leasing Trust Program for voting machines. Terms of the agreement stipulate a five-year repayment schedule, with variable monthly interest payments and variable monthly principal payments. As of June 30, 2004, the principal balance was \$2,398. Lease payments for the remaining year is:

Fiscal Year Ended June 30	Principal	Interest
2005	\$ 2,398	\$ 12
Totals	<u>\$ 2,398</u>	<u>\$ 12</u>

D. Brush Cutter

In July 2000, the county entered into a capital lease agreement for \$48,510 with Kentucky Association of Counties Leasing Trust Program for a brush cutter. Terms of the agreement stipulate a five-year repayment schedule with variable monthly interest payments and variable monthly principal payments. As of June 30, 2004, the principal balance was \$11,396. Lease payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest
2005	\$ 10,506	\$ 193
2006	890	2
Totals	<u>\$ 11,396</u>	<u>\$ 195</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

E. Road Paving

In May 2002, the county entered into a capital lease agreement for \$300,000 with Kentucky Association of Counties Leasing Trust Program for road paving. Terms of the agreement stipulate a ten-year repayment schedule, with variable monthly interest payments and variable annual principal payments. The principal amount is due on January 20 of each year to end on January 20, 2012. As of June 30, 2004, the principal balance was \$250,000. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2005	\$ 25,000	\$ 11,671
2006	30,000	10,352
2007	30,000	8,890
2008	30,000	7,429
2009-2012	135,000	14,068
Totals	<u>\$ 250,000</u>	<u>\$ 52,410</u>

F. Solid Waste Equipment

In July 2003, the county entered into a capital lease agreement for \$325,000 with Kentucky Association of Counties for a multi-purpose lease for the purchase of solid waste equipment. However the county only used \$250,241 of the proceeds. During December 2003, the County Judge/Executive requested that the balance of the lease be applied towards the principal thereby reducing monthly payments. Terms of the agreement stipulate a ten-year repayment schedule, with variable monthly interest payments and variable monthly principal payments. The principal amount is due monthly and scheduled to end on June 30, 2013. As of June 30, 2004, the principal balance was \$227,014. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2005	\$ 22,077	\$ 4,720
2006	22,748	4,233
2007	23,439	3,708
2008	24,151	3,236
2009	24,885	2,682
2010-2013	109,714	11,239
Totals	<u>\$ 227,014</u>	<u>\$ 29,818</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

G. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	373,752	250,063	103,007	520,808	77,981
Governmental Activities					
Long-term Liabilities	<u>\$ 373,752</u>	<u>\$ 250,063</u>	<u>\$ 103,007</u>	<u>\$ 520,808</u>	<u>\$ 77,981</u>

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2004, Lee County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 8. Subsequent Event

- A. On April 11, 2005 the Lee County Fiscal Court declared an emergency on making money available to the Three Forks Regional Jail. They voted to allocate \$300,000 of coal severance tax monies to Three Forks Regional Jail for replacement of debt service monies, loan payment default fees, and operational expenses. These monies are to be set up in a separate bank account with each disbursement itemized to fiscal court. The county issued a check for \$300,000 on May 4, 2005 to the Three Forks Regional Jail Account
- B. On May 27, 2005, the Auditor of Public Accounts issued an Independent Auditor's Report on the June 30, 2004, financial statements of the Three Forks Regional Jail Authority. This report outlines that the Three Forks Regional Jail (a joint venture of the Lee County Fiscal Court) has suffered recurring losses from operations and has a net asset deficiency that raises substantial doubt about its ability to continue as a going concern. The financial situation of the Three Forks Regional Jail has a severe and direct impact on the Lee County Fiscal Court's current and future budgets. Lee County's commitment to the Three Forks Regional Jail is outlined in Note 1. A copy of the Three Forks Regional Jail Authority's audit report may be obtained at www.auditor.ky.gov, or in writing at the Auditor of Public Accounts, 105 Sea Hero Road, Suite 2, Frankfort, Kentucky 40601, or by telephone at (502) 573-0050.

Note 9. Prior Period Beginning Fund Balance Adjustments

The beginning fund balance of \$367,251 includes voided checks totaling \$167 from the prior year. The beginning fund balance for the General Fund increased by \$15 while the Jail Fund beginning fund balance increased by \$152.

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LEE COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2004

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 485,528	\$ 517,377	\$ 618,736	\$ 101,359
In Lieu Tax Payments	9,871	9,871	9,370	(501)
Excess Fees	14	14	832	818
Licenses and Permits	15,056	15,056	13,331	(1,725)
Intergovernmental Revenue	659,935	659,935	598,677	(61,258)
Charges for Services	8,375	8,375	7,423	(952)
Miscellaneous	19,276	19,276	79,445	60,169
Interest	5,931	5,931	8,409	2,478
Total Revenues	<u>1,203,986</u>	<u>1,235,835</u>	<u>1,336,223</u>	<u>100,388</u>
EXPENDITURES				
General Government	457,528	494,096	469,043	25,053
Protection to Persons and Property	65,634	183,753	140,974	42,779
General Health and Sanitation	15,536	19,383	16,874	2,509
Social Services	23,890	41,317	35,004	6,313
Recreation and Culture	26,700	32,125	8,679	23,446
Roads		12,500	12,500	
Debt Service	806,379	807,511	807,273	238
Capital Projects	586,892	345,084	321,381	23,703
Administration	162,227	170,866	160,448	10,418
Total Expenditures	<u>2,144,786</u>	<u>2,106,635</u>	<u>1,972,176</u>	<u>134,459</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(940,800)</u>	<u>(870,800)</u>	<u>(635,953)</u>	<u>234,847</u>
OTHER FINANCING SOURCES (USES)				
Kentucky Advance Revenue Program Proce	792,800	792,800	792,800	
Transfers From Other Funds			45,000	45,000
Transfers To Other Funds	<u>(63,979)</u>	<u>(133,979)</u>	<u>(196,624)</u>	<u>(62,645)</u>
Total Other Financing Sources (Uses)	<u>728,821</u>	<u>658,821</u>	<u>641,176</u>	<u>(17,645)</u>
Net Changes in Fund Balance	<u>(211,979)</u>	<u>(211,979)</u>	<u>5,223</u>	<u>217,202</u>
Fund Balance - Beginning	<u>211,979</u>	<u>211,979</u>	<u>231,511</u>	<u>19,532</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 236,734</u>	<u>\$ 236,734</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 7,700	\$ 7,700	\$ 8,058	\$ 358
Intergovernmental Revenue	847,700	847,700	813,373	(34,327)
Miscellaneous	1,000	1,000	17,201	16,201
Interest	1,136	1,136	3,198	2,062
Total Revenues	857,536	857,536	841,830	(15,706)
EXPENDITURES				
Protection to Persons and Property	4,500	4,500	3,535	965
Roads	705,067	711,357	649,414	61,943
Debt Service	258,793	259,064	258,741	323
Administration	78,076	71,515	68,004	3,511
Total Expenditures	1,046,436	1,046,436	979,694	66,742
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(188,900)	(188,900)	(137,864)	51,036
OTHER FINANCING SOURCES (USES)				
Kentucky Advance Revenue Program Proceeds	188,900	188,900	188,900	
Transfers From Other Funds			76,624	76,624
Total Other Financing Sources (Uses)	188,900	188,900	265,524	76,624
Net Changes in Fund Balance			127,660	127,660
Fund Balance - Beginning			21,721	21,721
Fund Balance - Ending	\$ 0	\$ 0	\$ 149,381	\$ 149,381

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenues	\$ 11,000	\$ 11,000	\$ 11,133	133
Charges For Services	743,455	662,455	709,400	46,945
Miscellaneous Revenues	1,000	10,000	9,880	(120)
Interest Earned	1,500	1,500	176	(1,324)
Total Intergovernmental Revenues	756,955	684,955	730,589	45,634
EXPENDITURES				
Protection to Persons and Property	634,458	665,780	659,206	6,574
Debt Service	17,609	17,609	17,287	322
Administration	154,888	142,566	139,692	2,874
Total Expenditures	806,955	825,955	816,185	9,770
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(50,000)	(141,000)	(85,596)	55,404
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds		70,000	70,000	
Transfers To Other Funds			(45,000)	(45,000)
Total Other Financing Sources (Uses)		70,000	25,000	(45,000)
Net Changes in Fund Balances	(50,000)	(71,000)	(60,596)	10,404
Fund Balances - Beginning	50,000	71,000	72,561	1,561
Fund Balances - Ending	\$ 0	\$ 0	\$ 11,965	\$ 11,965

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses and Permits	\$	\$	\$ 4,036	\$ 4,036
Intergovernmental Revenue	18,293	18,293	17,447	(846)
Charges for Services	298,500	298,500	307,331	8,831
Miscellaneous			598	598
Interest	50	50	147	97
Total Revenues	316,843	316,843	329,559	12,716
EXPENDITURES				
General Health and Sanitation	298,627	298,627	532,919	(234,292)
Debt Service	40,000	40,000	31,378	8,622
Administration	36,509	36,509	35,638	871
Total Expenditures	375,136	375,136	599,935	(224,799)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(58,293)	(58,293)	(270,376)	(212,083)
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			250,063	250,063
Transfers From Other Funds	40,000	40,000	40,000	
Total Other Financing Sources (Uses)	40,000	40,000	290,063	250,063
Net Changes in Fund Balances	(18,293)	(18,293)	19,687	37,980
Fund Balances - Beginning	18,293	18,293	13,882	(4,411)
Fund Balances - Ending	\$ 0	\$ 0	\$ 33,569	\$ 33,569

**LEE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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LEE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

LEE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Jail Fund	LGEA Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 10,299	\$ 18,015	\$ 28,314
Total Assets	<u>\$ 10,299</u>	<u>\$ 18,015</u>	<u>\$ 28,314</u>
FUND BALANCES			
Unreserved:			
Special Revenue Funds	<u>10,299</u>	<u>18,015</u>	<u>28,314</u>
Total Fund Balances	<u>\$ 10,299</u>	<u>\$ 18,015</u>	<u>\$ 28,314</u>

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LEE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

LEE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Jail Fund	LGEA Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 37,180	\$ 187,097	\$ 224,277
Miscellaneous	166	6,500	6,666
Interest	62	283	345
Total Revenues	<u>37,408</u>	<u>193,880</u>	<u>231,288</u>
EXPENDITURES			
Protection to Persons and Property	187,407		187,407
Roads		37,578	37,578
Capital Projects		10,355	10,355
Administration	5,210		5,210
Total Expenditures	<u>192,617</u>	<u>47,933</u>	<u>240,550</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(155,209)</u>	<u>145,947</u>	<u>(9,262)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds	158,000		158,000
Transfers To Other Funds		(148,000)	(148,000)
Total Other Financing Sources(Uses)	<u>158,000</u>	<u>(148,000)</u>	<u>10,000</u>
Net Change in Fund Balances	2,791	(2,053)	738
Fund Balances - Beginning (Restated)	7,508	20,068	27,576
Fund Balances - Ending	<u>\$ 10,299</u>	<u>\$ 18,015</u>	<u>\$ 28,314</u>

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**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2004

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2004

A. FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITION

1. The County Should Improve Their Internal Control Procedures

The Governor's Office for Local Development requires the judge/executive to keep certain records and make certain reports. These duties include:

- Receiving all claims, and preparing a master claim list to present to the fiscal court
- Preparing all checks, maintain an appropriation ledger
- Being responsible for the county's quarterly report
- Reconciling appropriation ledger to the treasurer's appropriation ledger on a monthly basis
- Issuing purchase orders and maintaining a purchase order log
- Maintaining time records (vacation/sick).

The Treasurer is currently completing these procedures. Someone other than the Treasurer should perform the above duties. This would help strengthen controls.

The County has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the county has limited options for establishing an adequate segregation of duties. We recommend that someone other than the County Treasurer complete the duties noted above to improve the internal control structure of the fiscal court.

County Judge Executive L.C. Reese's Response: None

County Treasurer Pearl Spencer's Response: During the year of audit we instituted new procedures. Judge opens all mail, gives receipts to the Treasurer who in turn gives to Secretary to record in a receipt book. Secretary then makes deposits and Treasurer then post in her books. Bank reconciliations are made by Secretary but we have not been having her initial them. Secretary also maintains an appropriation ledger on excel for Judge. She is not always up to date but we do reconcile eventually. Secretary also makes claims list when Treasurer codes them. Secretary then mails out all bills once Treasurer issues payments. Will continue to improve controls.

2. The County Should Implement Better Internal Control Procedures Over Solid Waste Collections And Billings

The County's controls over the solid waste receipts and billing should be improved. During our testing, we noted the following:

- There were many inconsistencies in customers paying bills. Some were charged late fees while some were not.
- The county could not provide us with a monthly billing register.
- The county did provide us with daily checkout sheets; however, no monthly printout of activity was maintained.
- Solid Waste employees receiving cash also received bank statements from the bank.
- The fiscal court did not approve commercial rates
- The fiscal court did not approve late charges charged to customers' bills.

LEE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2004
(Continued)

A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

REPORTABLE CONDITION (Continued)

2. The County Should Implement Better Internal Control Procedures Over Solid Waste Collections And Billings (Continued)

We recommend the county implement the following:

- The county should charge fees that have been approved by the fiscal court and all fees including late fees should be charged consistently to all customers.
- The county should maintain a monthly billing register.
- The county should maintain a monthly journal of all transactions.
- Bank statements should be opened and examined by an independent person for unusual items, such as debit memos, and overdraft charges. A person independent of receiving and recording cash for solid waste receipts should also reconcile bank receipts to the County Treasurer's receipts ledger.
- The fiscal court should approve commercial rates.
- The fiscal court should approve late charges.

We also found that the solid waste employees are not currently backing up their daily work on disks. We recommend that backup copies be maintained for all solid waste transactions and the backup disks given to the County Treasurer on a weekly basis.

County Judge Executive L.C. Reese's Response: None

County Treasurer Pearl Spencer's Response: We will work toward implementing these procedures. We have several changes in solid waste personnel and are struggling with billing system.

3. The Depository Institution Should Have Provided Additional Pledges Of Securities To Protect Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$211,420 of public funds uninsured and unsecured.

County Judge Executive L.C. Reese's Response: None

County Treasurer Pearl Spencer's Response: In August I called the bank to secure more pledges and was told the person responsible for doing pledges was on vacation and I would have to wait until they returned because no one else could do it.

LEE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2004
(Continued)

A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- The County Should Improve Their Internal Control Procedures

This finding was not corrected and is discussed above.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable L.C. Reese, Lee County Judge/Executive
Members of the Lee County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lee County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated May 11, 2005. Lee County prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lee County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lee County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying comments and recommendations.

- The County Should Improve Their Internal Control Procedures
- The County Should Implement Better Internal Control Procedures Over Solid Waste Collections And Billings

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Lee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed an instance of material noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Depository Institution Should Have Provided Additional Pledges Of Securities To Protect Deposits

This report is intended solely for the information and use of Lee County Fiscal Court, management, and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 11, 2005

**CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND
DEVELOPMENT PROGRAMS**

LEE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

LEE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Lee County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer